No. 9—October, 1955

Business in Brief

issued quarterly by the Economic Research Department

THE CHASE MANHATTAN BANK

The economy is now operating at close to capacity, after a rise of 9% in activity during the past year. A few signs of strain have begun to appear in the form of shortages and price advances in specific lines.

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It was against this background that the nation learned of the President's illness. The news was disturbing as was shown by the action of the stock market. Confidence in the security and prosperity of the nation has been one of the underlying assumptions in most economic decisions. While this confidence has in no sense been seriously weakened, a new element of uncertainty has been introduced into the business picture.

No one can assess the long-term impact of this development. But the immediate problem can be clearly defined. It is to press ahead on the difficult task of maintaining the sound and vigorous progress of our economy.

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As a first step consider where we stand and how we arrived at our present position. Here is what has happened in major areas of the economy during the past year:

	Third Quarter 1955	Third Quarter 1954	Net Change
	(Billions of Dollars) Annual Rates		
Gross National Product....	$391	$359	+$32
Consumer Spending	255	238	+ 17
Business Investment in New Plant and Equipment	40	35	+ 5
Net Change in Business Inventories	+ 4	— 5	+ 9
Housing	16	14	+ 2
Government	75	76	— 1

Over-all activity rose by a rate of $8 billion a quarter. That's more than twice the normal growth of our economy that stems from an expanding labor force and rising output per man-hour.

Credit expansion supported the rise. It financed a full third of the increase in consumer and business outlays. In addition, mortgage debt has been rising at a $16 billion annual rate as against a $12 billion rise in 1954.

The problem is to slow the rate of advance in business activity without choking it off. If demand should continue to increase at an $8 billion a quarter rate, there would not be enough goods and services to go around. The result: inflation. However, the nation can support a more moderate rise.

Several moderating forces are now at work:

• The Federal cash budget is likely to show a surplus of $2-3 billion in the current fiscal year.

• The Government's monetary policy is designed to slow the credit advance.

• Rising repayments on instalment and mortgage debt are acting to hold down the rise in consumption.

• The major impetus from the rise in inventory buying is behind us.

Meantime, the available evidence points to a continued increase in other areas. Consumer income is rising. New orders for most types of business equipment are 20% or more ahead of last year. Exports are up 10%.

On balance, it would appear that, for the near term at least, the best working assumption is that demand will continue to press against the economy's capacity.

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These basic economic trends explain why the monetary authorities have moved to tighten credit. Their objective is not to make credit unavailable. They are striving to keep credit expansion within the limits a growing economy can support without inflation.

The times call for continued caution and restraint. Business inventories are a case in point. An inventory boom would lead—inevitably—to an adjustment later on. But an orderly rise would contribute to general stability.

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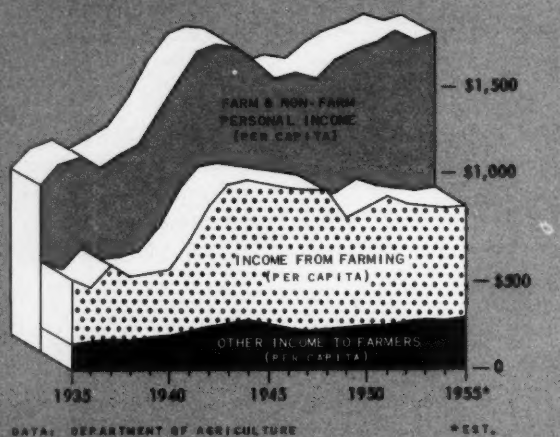
The maintenance of sound economic growth is never an easy process. It will be complicated in the period ahead by the uncertainties arising out of President Eisenhower's illness. Yet, great as has been the President's contribution, the strength and vigor of the nation can never be dependent on any one individual. The responsibility facing business and the general public is to act with poise, judgment and confidence that the nation will remain secure and continue to advance.

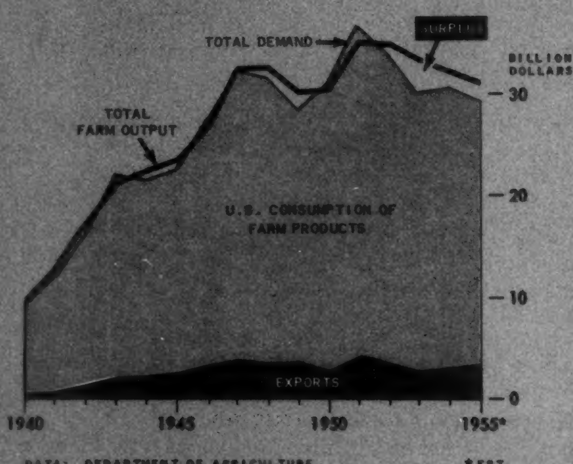
THE FARM PROBLEM

Productivity has Soared, But Demand has Lagged, and Population Has Not Dropped Fast Enough

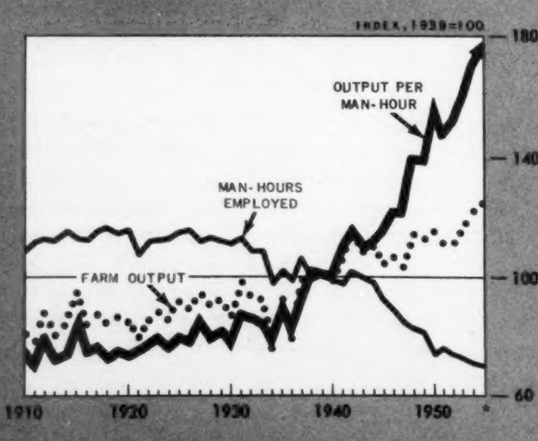
TOTAL INCOME IS UP; FARM INCOME DOWN ...



AS DEMAND LAGS OUTPUT ...



AND PRODUCTIVITY SOARS



How is the farmer faring? That's an important question because a healthy farm economy is essential for sound prosperity. Yet it's not easily answered, as the barrage of recent claims and counter-claims shows. A careful review of all the facts seems to support the following conclusions:

- Both farm prices (down 25%) and farm income (down 30%) have dropped considerably from their boom levels in early 1951.
- The decline has continued during the past year, despite the pickup in business.
- However, the farm population has dropped, too. And the farmer's income from non-farm activities is up. So total per capita farm income is down less than 4% since 1951.
- At the same time, net income per farm (after adjusting for prices) is more than twice the level of 20 years ago, and the farmer's finances remain strong.

The Lag in Demand

What explains the decline in farm income? The basic answer is that farm production has grown more rapidly than the demand for farm products. The total amount spent by consumers on food is up. But most of the increase has been absorbed by increased marketing and processing costs. (Examples: frozen foods and pre-packaged meats.) So consumption of farm products has not kept pace. In addition, farm exports are down.

Rise in Output

Meanwhile, farm production has been rising rapidly. And this year's output promises to be 3% higher than the 1954 total.

Why has farm production grown so rapidly? The answer lies in the virtual revolution in farming methods since pre-war days.

- Farms are mechanized—we're now using twice as many tractors, four times as many grain combines, five times as many corn pickers as we did 15 years ago.
- Farms are larger—the average farm is now 40% larger than in 1935.
- Farm technology has made tremendous strides—better seeds, livestock, insecticides and antibiotics have appeared.

Perhaps the most dramatic way to sum up the impact of these changes is in these terms: In 1900, one farm worker produced enough to feed himself and six other persons. Today, he can support more than 17 persons.

Decline in Population

Since productivity has skyrocketed and demand has not kept pace, an increasing number of farmers have left their farms and taken jobs with private industry. Farm population is down a striking 10 million since 1935, —from 32 million then to 22 million now.

However, the remarkable fact is that the rise in productivity has been so fast that we have still had overproduction. Large numbers of farmers have continued to farm marginal land when they might have found more profitable employment in industry.

Of the 5.3 million farms in the U.S. today:

- Nearly 2 million account for fully 90% of all production sold commercially. Income per family here runs to about $6,000 a year.
- Another 2¼ million farms produce little for sale but provide a subsistence level of living for their operators.
- The one million farms at the bottom of the scale show an average income of less than $1,000 a year (including products grown and consumed on the farm).

It is estimated that at least half a million farmers could find more productive jobs in private industry today.

Reduced to its essentials, the farm problem is mainly one of creating conditions under which farmers will share fully in the benefits of rising productivity. With output per farmer rising so rapidly, that means we must encourage operators of less efficient farms to move into non-farm jobs. In the long run, this would bring output in balance with demand and raise per capita farm income.

Price Supports

Integrally tied to the farm problem is our national program of farm price supports. Farm prices are highly unstable. And the farmer is subject to unusual hazards (e.g. the weather). For these reasons, the Government has moved to even out short-term fluctuations in farm prices by buying and storing "surplus" production and by limiting acreage when necessary.

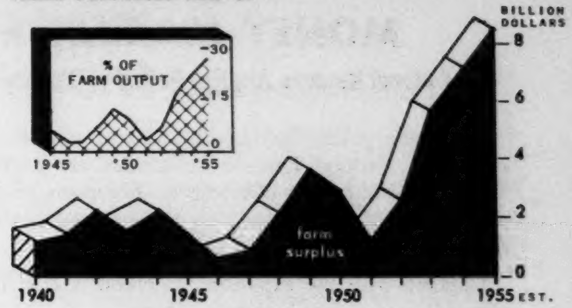
The program has been limited to crops accounting for 35% of farm income (chiefly those items like cotton, wheat and butter that can be stored). It has not materially helped low income farmers, who produce little for sale.

Supports were boosted to a fixed 90% of parity (for most items) to encourage production during World War II. And the increase in farm production made a notable contribution to the war effort.

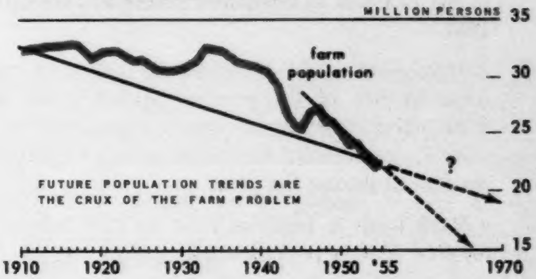
However, continued fixed price supports in the postwar period encouraged heavy production of basic crops at a time when demand was declining. The result: rising surpluses. About 5% of last year's farm output went into CCC stocks, boosting the total surplus to over $7 billion.

To facilitate the adjustment of production to demand,

FARM SURPLUSES ARE UP



FARM POPULATION IS DOWN



DATA: DEPT OF AGRICULTURE

the Government has now developed a policy of flexible supports. The aim is to encourage a shift of farm production away from crops that are in surplus supply by lowering the support price and applying acreage controls. This program has not yet been in operation long enough to become fully effective.

Flexible price supports have a number of advantages. They help adjust production to demand and in doing so protect farmers against wide fluctuations in farm prices. At the same time, they should slow down the costly rise in farm surpluses.

The Administration is also considering new proposals to bring the surplus problem under control, perhaps by broadening the soil conservation program. Under consideration, too, is the problem of raising the income of subsistence farmers.

Problems Ahead

There is no quick and easy solution to the problems facing our farm community. We are, however, making progress in the right direction. The inevitable adjustment following World War II and the Korean War has about run its course. Except for the overhang of farm surpluses, farm experts believe most price support levels are not far from the free market price today. And the migration away from marginal farm land is continuing.

Thus, there is room for hope that continued policies designed to ease the readjustments that lie ahead, instead of attempting to prevent them, will work in the best interests of both farmers and the community as a whole. Prosperity on the farms is an essential part of national prosperity.

MONEY MARKET

Federal Reserve Applies Policy of Restraint

Monetary policy has become more restrictive since mid-year. Federal Reserve authorities are engaged in the delicate operation of trying to slow down the rate of advance in credit without causing the stream to run too dry.

Concern over the expansion in credit is explained by trends in major sectors of the market:

- Mortgage credit rose at an annual rate of $16 billion in the first half as compared with a $12 billion rise in 1954.
- Instalment credit increased $3 billion in the first seven months of the year as against a rise of only $300 million for the full year 1954. Credit financed more than one-third of the increase in consumer expenditures during the year.
- Bank loans to business went up $1.6 billion during the first half, a period in which they usually decline.

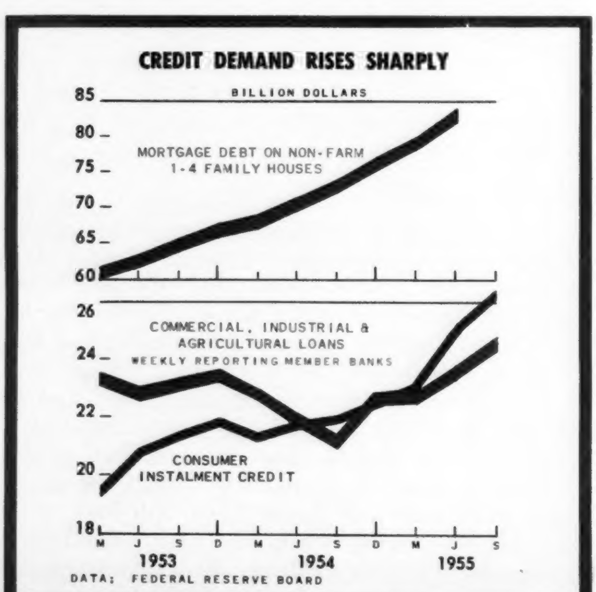
Credit Supported Recovery

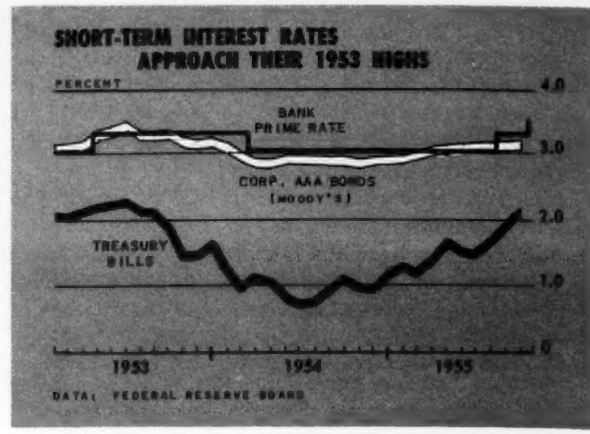
The ready availability of credit played an important role in facilitating the nation's rapid recovery from the mild 1953-54 recession. The active money supply expanded at a rate of 5% in the last half of 1954 and about 4% in the first half of 1955 (seasonally adjusted).

Late last year Federal Reserve policy shifted from "active ease" to "ease". This shift mopped up bank reserves and led to a firming of short-term interest rates.

In recent months policy has moved toward restraint:

- The Federal Reserve has reduced free reserves of commercial banks to a negative figure. ("Free reserves" are excess reserves minus bank borrowings from the Federal Reserve.)
- The Federal Reserve's discount rate on bank borrowings was raised from 1¾% to 2¼%.
- Terms on VA and FHA mortgages were tightened somewhat. In addition, the ability of savings and loan associations to borrow from Federal Home Loan Banks has been restricted.





What have these policies accomplished? Because the effects of credit restrictions are sometimes delayed, it is difficult to assess their impact currently. But there seems to be evidence that credit tightening is having an effect.

To meet rising loan demands, banks have had to liquidate some $6 billion in government securities in the past year and to borrow from the Federal Reserve.

As a result, banks have less leeway to make new loans. Short-term interest rates are almost up to their level in early 1953. Moreover, banks have raised the prime interest rate on commercial loans to 3½%—the second increase since the first of the year.

Mortgage credit has tightened perceptibly. While it is too early to see the full effects on housing, it seems clear that some further cutback in new housing starts is indicated.

Flexible Policies

During the remainder of the year banks will need additional reserves to meet seasonal demands. Present indications are that the Federal Reserve wants to maintain a condition of tightness in money markets without creating a condition of stringency. Thus, while the authorities may provide some reserves through open market operations, banks will undoubtedly have to borrow to meet part of their requirements.

However, the keynote of credit policy is flexibility. So long as over-all demand in the economy presses against capacity, tightness in money markets contributes to the maintenance of sound prosperity. If the business picture should change, credit policy will be adjusted to meet the new situation.

CONSUMER DURABLES

Have We Reached a Level of Saturation?

The American people are now spending a remarkable $35 billion a year on consumer hard goods, the highest level in our history. And the stock of durable goods we own—automobiles, TV sets, refrigerators, air conditioners—has also reached an alltime high.

Does this mean, as some have contended, that we are approaching a level of "saturation" in durable goods? The answer is no. This fear has been raised frequently in the past, but has always proven to be without foundation. For the American consumer, when his income rises, seems to possess an almost limitless capacity to use it. And U.S. producers are equally resourceful in inventing new and improved appliances and other products to tempt him with.

An Inventory of Consumer Durables

What do durable expenditures consist of? The largest slice today goes into automobiles. ($16.4 billion). We spend $4.2 billion on kitchen and household appliances, $3.9 billion for furniture, and $1.9 billion for jewelry. The remainder is a varied assortment of the miscellaneous.

More impressive than the total expenditures is the number of families who enjoy these goods:

- Close to 70% of all American families own an automobile. And with higher incomes and the move to the suburbs, nearly 12% of all these families own more than one car, (as against 5% in 1948).

- About 85% of American homes have electrical refrigerators and irons; 76% are equipped with washing machines; and 68% with toasters. The American housewife is the most conspicuous beneficiary of the rise in durables.

- Almost every home has a radio. And nearly 70% have television sets. In fact, more have radios than private baths. And more have television sets than central heating.

The Future for Durables

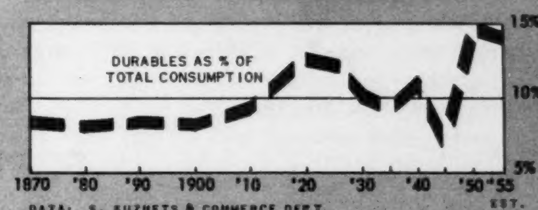
Do these high percentages mean that the market for durables is drying up? By no means.

In the first place, the replacement market alone is huge. About two-thirds of all refrigerator sales were made for replacement in 1954, while 83% of new car buyers traded in an old car. What's more, these replacements are often better products that make the older models obsolete. The automobile of 1955 can hardly be compared with that of 1940.

In addition, there are many areas where the potential market for durable goods has scarcely been penetrated. Only 4% of our families own clothes dryers and air conditioners, for example, and little more than 3% have dishwashers.

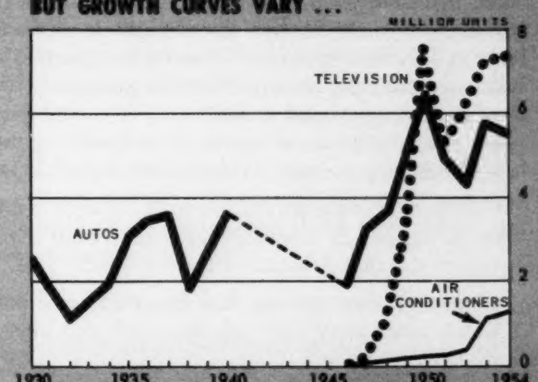
Finally, one of the largest sectors of the future market may be reserved for goods that have not yet been developed. Fifteen years ago there were no TV sets, no popularly-priced dishwashers and air conditioners. It is the failure to account for both new products and better products that has made pessimists gloomy—and wrong—in the past. This same failure is likely to confound them again in the future.

DURABLES' SHARE OF CONSUMPTION IS UP...



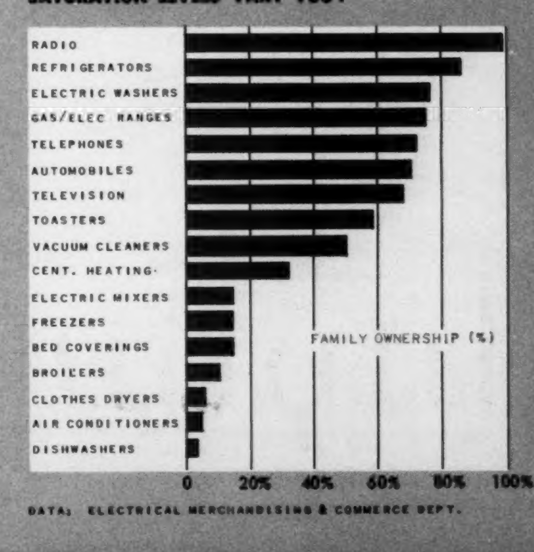
DATA: S. KUZNETS & COMMERCE DEPT.

BUT GROWTH CURVES VARY ...



DATA: ELECTRICAL MERCHANDISING & AUTO. MFGR. ASSOC.

SATURATION LEVELS VARY TOO.



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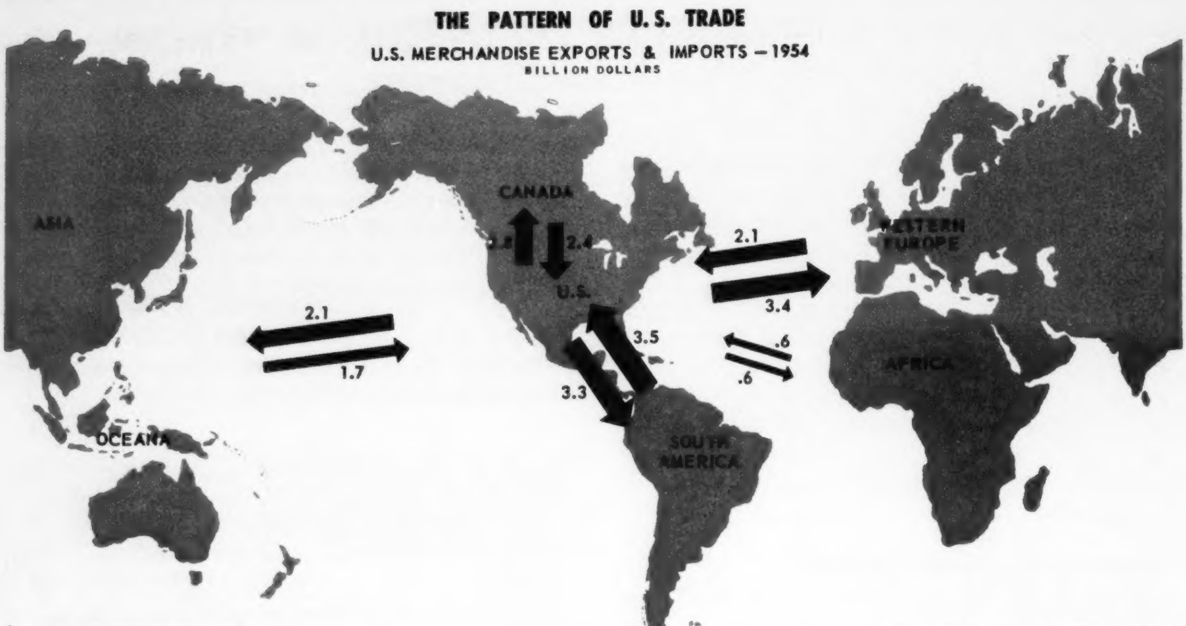


DATA: DEPARTMENT OF COMMERCE

MAP OUTLINE-C.S.HAMMOND & CO. INC.

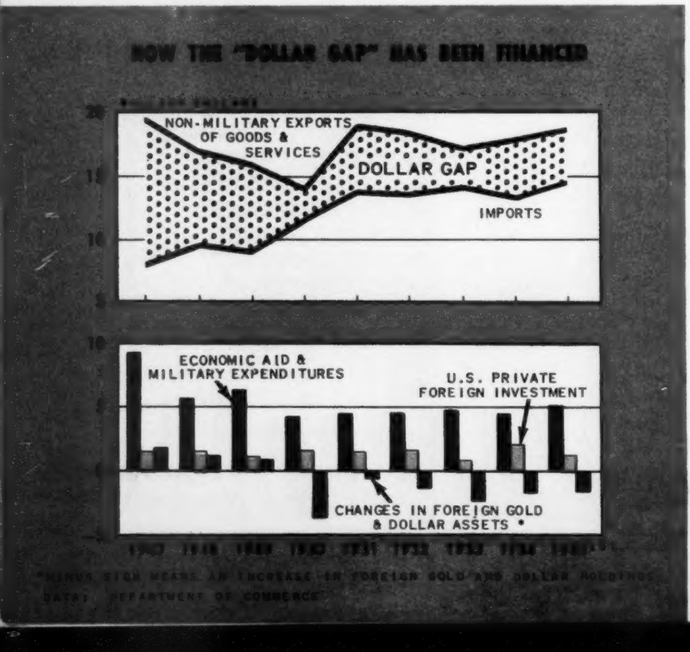
FOREIGN TRADE

Upturn in Trade May Close the Dollar Gap

U.S. foreign trade has bounced back dramatically from its 1953-54 downturn. Commercial exports, at a $14 billion annual rate, are up 10% in the past year. Imports have been rising almost as fast.

Here is how the main trends in trade during the first half of this year compare with the first half of 1954:

- Sales to Europe are up 30% while exports to Canada are 9% higher. In contrast, there's been little change in exports to Latin America or the Far East.
- Most of the increase has occurred in exports of metals, machinery and vehicles, coal and chemicals. Steel exports to Europe have skyrocketed nearly 2½ times and coal has risen 1½ times.
- On the import side, the main increases have been in petroleum, textiles, paper and pulp, rubber and machinery. Food imports dropped.



European Boom

The countries of Western Europe are buying more because they are in the midst of a business boom. Industrial production has been rising since early 1953. It is now more than one-fourth above January 1953. Unemployment has virtually disappeared.

In Western Europe a production rise boosts import demand sharply. For a given volume of manufacturing output, Europe has to import 3½ times as much industrial raw materials as we do. Moreover, shortages of basic materials—like coal and steel—have appeared.

With output pressing against capacity, most Western European nations are subject to inflationary pressures. In some cases, as in Britain, these pressures have been reinforced by a rapid rise in wage rates.

The rise in Western Europe's imports has slowed, or reversed, the improvement in balance of payments accounts. Britain's gold and foreign exchange reserves are down $417 million this year, as compared with a rise of $383 million in the first nine months of 1954.

In other cases, as in Western Germany, reserves are still rising, but the rate of increase has slowed. There is

growing concern in Germany and other continental nations over the mounting pressure on internal prices.

Market Prospects

In an attempt to check inflation, most Western European nations have tightened credit. These policies promise to slow the rise in U.S. exports to Europe.

In general, then, the most promising markets for an expansion in U.S. exports would seem to lie outside Europe—chiefly in those nations supplying industrial raw materials to both the U.S. and Western Europe. Examples: Mexico, Peru, and Canada. In contrast, countries whose dollar earnings come from food or textile raw materials are less promising markets at present.

Dollar Gap

Recent trends in U.S. trade are favorable for the attainment of a general balance in world trade. The most significant trend has been the dramatic rise in U.S. imports. Commercial imports are up 50% from their level in 1948-49, when the "dollar gap" made headlines. Our exports are only 25% higher.

To be sure, a "dollar gap" of a sort still exists. Our commercial exports of both goods and services are running at a $19 billion annual rate as against commercial imports of $14.2 billion. Thus, the "gap," while narrower than in 1948-49, still runs to $4.8 billion.

However, the significance of this "dollar gap" has altered markedly. In 1948-49, it took Marshall Plan aid to prevent the severe cutback in Western Europe's imports that would have been needed to close the gap. Now the gap is more than covered by:

- $2.8 billion a year of U.S. military expenditures for maintaining troops abroad, overseas bases, and offshore procurement.
- $1.5-2.0 billion a year of net new U.S. overseas investment (including remittances).
- About $2 billion of economic aid (as against $5 billion in 1949).

Thus, the "dollar gap" is not a significant problem for the time being.

Long Run Trade Trends

Over the longer run, however, the prospect is that U.S. overseas military expenditures and economic aid will decline gradually. As this happens, we will have to either cut exports, increase private overseas investment or import more.

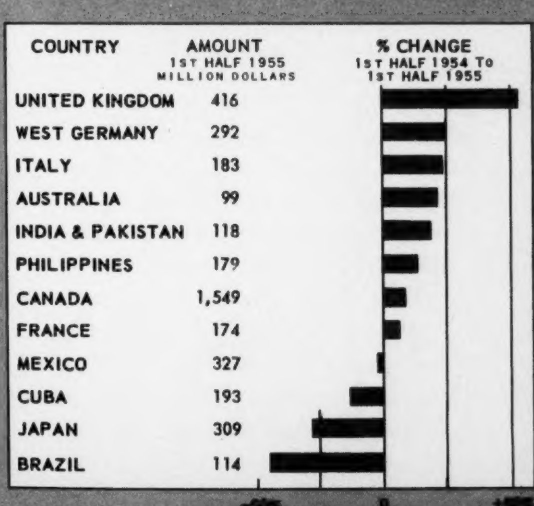
Of the three alternatives, a cut in exports is the least satisfactory. About 3½ million U.S. workers depend on exports for their jobs.

Fortunately, foreign investment can rise and the U.S. can import more. Our imports are only 3½% of total output now as against 5½% in the 1920's. A major reason for the decline has been the many barriers erected against trade by most nations in the 1930's and 1940's. The general reduction in these barriers that has been taking place in recent years should encourage both U.S. imports and exports in the long run.

Moreover, the Administration program for further orderly reductions in tariffs (which have been cut more than 50% since 1934) and for customs simplification should help support a rise in our foreign trade.

The U.S. has a major stake in an expanding volume of world trade. We need more imports to support our growing production. A rise in trade would help solve the long-range dollar problem. And, most basically, expanding trade promotes greater specialization and thus growing productivity and higher living standards in the U.S. and throughout the world.

HOW U.S. EXPORTS HAVE CHANGED

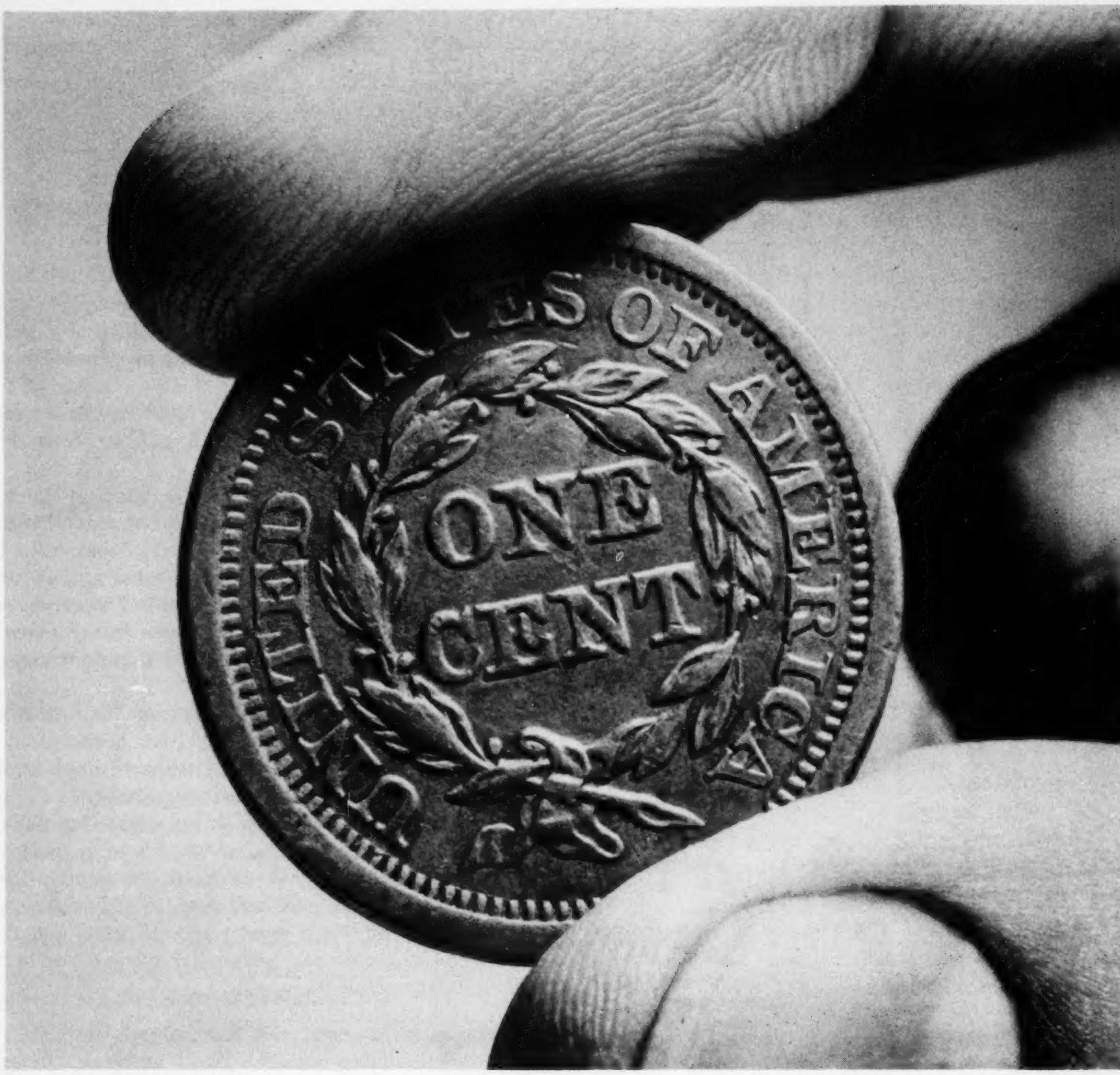


DATA: DEPARTMENT OF COMMERCE

WHAT THE U.S. EXPORTS & IMPORTS

EXPORTS	MILLION DOLLARS (1954)
INDUSTRIAL MACH.	1,456
AUTOS, PARTS & ACCESSORIES	1,035
CHEMICALS & RELATED PRODUCTS	974
RAW COTTON	780
ELECTRICAL MACH.	594
IRON & STEEL	510
PETROLEUM & PROD.	431
WHEAT	427
METAL MFRS.	341
COAL & COAL PROD.	304

IMPORTS	MILLION DOLLARS (1954)
COFFEE	[illegible]
NONFERROUS ORES & METALS	[illegible]
CRUDE PETROLEUM	[illegible]
NEWSPRINT	[illegible]
CANE SUGAR	[illegible]
CRUDE RUBBER	[illegible]
WOOD PULP	[illegible]
COCOA OR CACAO BEANS	[illegible]
SAWED BOARDS, ETC.	[illegible]
GAS & FUEL OIL	[illegible]



Pretty penny for copper

A look at what modern banking does for one of the oldest industries on earth.

As any copper man can tell you, it *does* take a pretty penny to keep America's Copper Industry producing nearly a million tons of metal a year, from domestic sources alone.

Traditionally, profits after taxes and capital invested by stockholders finance copper progress. But sometimes—just as happens in the best regulated families—what goes out for expansion exceeds the capacity of working capital. That's where the banker pitches in, or more precisely... advances a pretty penny.

Bank Role

A bank loan made on the reputation and resources of a copper company goes to cover practically any activity from mining ore to perfecting new alloys for finished products. In mines, fabricating centers, and manufacturing plants bank loans help dig copper, refine copper and make copper products. And to complete the copper lending pattern, banks frequently help retail merchants stock shelves with the thousands of copper and brass items you use every day.

The Human Angle

All told, these bank loans to the Copper Industry come to many millions every year. But statistics aside, there's a human angle to the copper loan story.

Wherever money works in a freely competitive economy, men and women work, too, and the goods they produce... the wealth they create... make the whole nation happier, healthier and more progressive.

The Chase Manhattan Bank of New York, a leader in loans to American industry, is proud of the contribution banking has made and is making to the progress of our country.

THE CHASE MANHATTAN BANK

(MEMBER FEDERAL DEPOSIT INSURANCE CORPORATION)